

## Message Text

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PAGE 01 ADDIS 09671 121652Z

43

ACTION AF-06

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 PA-01 PRS-01 AGR-05

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R 120810Z AUG 75

FM AMEMBASSY ADDIS ABABA

TO SECSTATE WASHDC 5861

INFO AMCONGEN ASMARA

AMEMBASSY NAIROBI

AMEMBASSY KHARTOUM

AMEMBASSY LONDON

AMEMBASSY PARIS

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E.O. 11652: N/A

TAGS: ECON EFIN

SUBJECT: EPMG CONTEMPLATING AN INCOMES POLICY AND AN AGRICULTURAL  
TAX

1. EMBASSY HAS SKETCHY BUT RELIABLE INFORMATION THAT THE EPMG IS  
CURRENTLY FORMULATING AN INCOMES POLICY AND AN AGRICULTURAL TAXA-  
TION POLICY. THESE POLICIES MAY BE ANNOUNCED WITHIN THE NEXT FEW  
WEEKS, POSSIBLY AS EARLY AS SEPTEMBER 12, WHICH IS THE FIRST  
ANNIVERSARY OF THE DEPOSITION OF THE EMPEROR.

2. REGARDING THE INCOMES POLICY THE EPMG IS REPORTEDLY GOING TO  
REDUCE SALARIES OF THOSE INDIVIDUALS MAKING OVER A CERTAIN AMOUNT-  
ETH\$500 IS THE USUAL THRESHOLD CITED. THE REDUCTIONS WILL PROBABLY  
BE ON A SLIDING SCALE WITH THOSE MAKING MOST TAKING THE HEAVIEST  
PROPORTIONAL CUT. THE JUSTIFICATION FOR THIS ACTION IS REPORTEDLY  
THAT INCOME DISPARITIES MUST BE REDUCED UNDER THE NEW SOCIALIST  
SYSTEM AND, Owing TO OTHER POLICY ACTIONS BY THE GOVERNMENT SUCH AS  
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PAGE 02 ADDIS 09671 121652Z

PRICE CONTROLS AND RENT REDUCTIONS, IT NOW COSTS LESS TO MEET BASIC LIVING REQUIREMENTS.

3. THE ISSUES RELATED TO AGRICULTURAL TAXATION ARE MORE COMPLICATED. THE FIRST QUESTION IS WHETHER ANY TAX SHOULD BE LEVIED THIS YEAR ESPECIALLY IN COMMUNAL TENURE AREAS WHERE TAXES HAVE BEEN ACTIVELY RESISTED IN THE PAST. NEXT, THE METHOD OF TAX HAS TO BE DECIDED, I.E. ON LAND OR PRODUCTION. THIRD, THE LEVEL OF THE TAX HAS TO BE DETERMINED. GENERALLY IT IS EXPECTED TO BE MORE THAN THE OLD TAXATION LEVELS BUT LESS THAN THE COMBINED AMOUNT OF TAXES AND PAYMENTS TO LANDLORDS WHICH PEASANTS PREVIOUSLY HAD TO PAY. FINALLY THE DISTRIBUTION OF THE TAX COLLECTED BETWEEN THE LOCAL GOVERNMENT UNITS (OR EVEN THE PEASANT ASSOCIATIONS) AND THE CENTRAL GOVERNMENT HAS TO BE SET. THUS FAR THE RANGE SEEMS TO RUN BETWEEN 0 AND 40 PERCENT FOR THE CENTRAL GOVERNMENT WITH MOST FAVORING THE MAXIMUM POSSIBLE TO REMAIN WITH LOCAL GOVERNMENT UNITS AND ONLY A TOKEN AMOUNT BEING SENT ON TO THE CENTRAL GOVERNMENT.

4. OBVIOUSLY THESE POLICIES ARE FRAUGHT WITH POTENTIAL DIFFICULTIES FOR THE EPMG, ASSUMING THAT THEY ARE DESIGNED TO HAVE A FAR-REACHING IMPACT ON INCOME DISTRIBUTION AND THAT THEY ARE APPLIED RIGOROUSLY. IN THE CASE OF INCOMES POLICY PROBLEMS OF INCENTIVE (PERHAPS A KEY ISSUE IN GENERAL WITH RESPECT TO THE EPMG'S ECONOMIC POLICIES) AND CORRUPTION COULD BECOME ACUTE. AGRICULTURAL TAXATION COULD ALSO GENERATE STRONG RESISTANCE BUT REACTIONS HERE WILL PROBABLY DEPEND ON HOW MUCH OF THE LOCALLY COLLECTED TAXES REMAIN IN THE RESPECTIVE COMMUNITIES. IN ANY CASE, IT APPEARS THAT THE EPMG IS DETERMINED TO CONTINUE ALONG ITS SOCIALISTICALLY ORIENTED COURSE EVEN IN THESE POTENTIALLY SENSITIVE AREAS.

HUMMEL

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\*\*\* Current Handling Restrictions \*\*\* n/a

\*\*\* Current Classification \*\*\* LIMITED OFFICIAL USE

## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, POLICIES, TAXES, WAGES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 12 AUG 1975  
**Decapton Date:** 01 JAN 1960  
**Decapton Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** RowellE0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975ADDIS09671  
**Document Source:** CORE  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** n/a  
**Errors:** n/a  
**Film Number:** D750278-0610  
**From:** ADDIS ABABA  
**Handling Restrictions:** n/a  
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**Line Count:** 96  
**Locator:** TEXT ON MICROFILM, TEXT ON-LINE  
**Office:** ACTION AF  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 2  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** RowellE0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 22 MAY 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <22 MAY 2003 by ShawDG>; APPROVED <06 OCT 2003 by RowellE0>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** <DBA CORRECTED> gwr 971002  
**Subject:** EPMG CONTEMPLATING AN INCOMES POLICY AND AN AGRICULTURAL TAX  
**TAGS:** ECON, EFIN, ET, US  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006